LM Wind Power A/S

Jupitervej 6, DK-6000 Kolding

Annual Report for 1 January - 31 December 2017

CVR No 76 49 05 11

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 9 /7 2018

Peder Toft Nielsen
Chairman

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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of LM Wind Power A/S for the financial year 1 January - 31 December 2017.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2017 of the Company and of the results of the Company operations for 2017.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's activities and financial matters, of the result for the year and of the Company's financial position.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Kolding, 9 July 2018

Executive Board

Duncan Gee Berry
CEO

Board of Directors

Bjarne Sandager Nielsen Chairman	Duncan Gee Berry	Rodrigo Carneiro da Cunha Torres
Niels Bjarne Hansen Staff Representative	Thomas Engelstoft Lindharth Staff Representative	

Independent Auditor’s Report

To the Shareholder of LM Wind Power A/S

Opinion
We have audited the financial statements of LM Wind Power A/S for the financial year 1 January - 31 December 2017 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2017 and of the results of the Company's operations for the financial year 1 January – 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of financial statement users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review
Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Independent Auditor's Report

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Aarhus, 9 July 2018
KPMG
Statsautoriseret Revisionspartnerselskab
CVR No 25 57 81 98

Henrik O. Larsen
State Authorised Public Accountant
mne15839

Michael Stenskrog
State Authorised Public Accountant
mne26819

Company Information

The Company	LM Wind Power A/S Jupitervej 6 DK-6000 Kolding Website: www.lmwindpower.com CVR No: 76 49 05 11 Financial period: 1 January - 31 December Incorporated: 30 October 1985 Municipality of reg. office: Kolding
Board of Directors	Bjarne Sandager Nielsen, Chairman Duncan Gee Berry Rodrigo Carneiro da Cunha Torres Niels Bjarne Hansen Thomas Engelstoft Lindharth
Executive Board	Duncan Gee Berry
Auditors	KPMG Statsautoriseret Revisionspartnerselskab Bredskifte Allé 13 DK-8210 Aarhus V

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2017	2016	2015	2014	2013
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Revenue	1,494,416	1,183,664	675,767	476,461	325,293
Operating profit/loss	34,148	342,115	70,717	58,711	-196,447
Net financials	521,787	328,526	270,985	121,708	38,590
Net profit/loss for the year	457,737	663,873	266,320	44,891	-158,356
Balance sheet					
Balance sheet total	3,613,852	4,039,223	2,609,218	3,460,632	3,149,012
Equity	1,891,986	1,189,050	781,153	471,880	410,241
Investment in property, plant and equipment	30,222	180,946	19,697	171,614	154,037
Number of employees	451	399	366	404	399
Ratios					
Gross margin	26.8%	64.2%	62.8%	72.6%	40.1%
Profit margin	3.6%	35.2%	17.5%	-4.0%	-44.6%
Return on assets	1.5%	10.3%	4.5%	-0.5%	-5.0%
Solvency ratio	52.4%	29.4%	29.9%	13.6%	13.0%
Return on equity	29.7%	67.4%	42.5%	10.2%	-31.4%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

With reference to The Financial Statements Act section 101 part 3 the comparative figures for 2013, 2014 and 2015 have not been restated. In connection with changes to accounting policies see the description under accounting policies.

Management's Review

Key activities

LM Wind Power is the world's leading supplier of components for the wind turbine industry, with its main activity as the development, production and sale of blades to the wind turbine industry.

Development in the year

The income statement of the Company for 2017 shows a profit of TDKK 457,737, and at 31 December 2017 the balance sheet of the Company shows equity of TDKK 1,891,986.

The company has transferred its intellectual property rights to one new and one existing subsidiary. At the time of the transfer, the company entered into a royalty agreement for the future use of the intellectual property rights.

The group has expanded the activities in 2017 resulting in a signigicant increase in revenue. As part of the increased activity, the group expanded with a new factory in France for production of offshore blades.

The past year and follow-up on development expectations from last year

The company has exceeded last year expectations for the 2017 result, which was expected to be in the size of DKK 400 million.

As mentioned above, the group expanded the activities in 2017, and further expansion is expected in 2018 and the following years due to high demmand for wind turbine blades.

Special risks - operating risks and financial risks

Operating risks

The Company and the group are subject to operating risks in form of risk of warranty claims. The risk is addressed constantly through the companys quality system and inspections of goods prior to delivery.

Foreign exchange risks

The company and the group are to some degree exposed towards foreign exchange risks, which are addressed through hedging if deemed nessescary.

Targets and expectations for the year ahead

For 2018, Management expect a profit in the same range as the current year.

Research and development

The company has no research and development activities. Development activities in the group is undertaken on behalf of two subsidiaries holding intellectual property rights.

Management's Review

External environment

Management finds that the company activities does not materially impact the external environment. As for the activities in the group we refer to the statement on corporate social responsibilities.

Intellectual capital resources

As part of the Company activities for the company and the group are to develop, produce and sell highly advanced blades to wind turbines, it is essential that the company can recruit and retain highly qualified personnel, particularly within relevant engineering disciplines.

Statement of corporate social responsibility

The statutory statement of corporate social responsibility is available at: https://www.lmwindpower.com/-/media/files/reporting/lm-wind-power-nonfinancial-sustainability-report-2017.pdf

Statement on gender composition

The statutory statement on gender composition is available at: https://www.lmwindpower.com/-/media/files/reporting/lm-wind-power-nonfinancial-sustainability-report-2017.pdf

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement 1 January - 31 December

	Note	2017	2016
		TDKK	TDKK
Revenue	1	**1,494,416**	**1,183,664**
Other operating income		19,623	81,919
Expenses for raw materials and consumables		-266,563	-104,328
Other external expenses		-847,247	-401,894
Gross profit/loss		**400,229**	**759,361**
Staff expenses	2	-278,028	-244,671
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	3	-68,430	-90,656
Other operating expenses		0	-7,497
Profit/loss before financial income and expenses		**53,771**	**416,537**
Income from investments in subsidiaries		62,686	35,336
Financial income	4	702,063	510,194
Financial expenses	5	-242,962	-217,004
Profit/loss before tax		**575,558**	**745,063**
Tax on profit/loss for the year	6	-117,821	-81,190
Net profit/loss for the year		**457,737**	**663,873**

Balance Sheet 31 December

Assets

	Note	2017	2016
		TDKK	TDKK
Completed development projects		0	151,129
Software		49,975	0
Goodwill		0	37,713
Development projects in progress		0	91,906
Intangible assets	7	**49,975**	**280,748**
Land and buildings		0	21
Plant and machinery		18,482	16,415
Other fixtures and fittings, tools and equipment		1,969	64,081
Leasehold improvements		7,733	5,060
Property, plant and equipment in progress		40,880	99,074
Property, plant and equipment	8	**69,064**	**184,651**
Investments in subsidiaries	9	1,685,258	1,666,602
Other investments	10	0	96
Fixed asset investments		**1,685,258**	**1,666,698**
Fixed assets		**1,804,297**	**2,132,097**
Raw materials and consumables		13,024	11,049
Work in progress		104,776	6,328
Finished goods and goods for resale		2,063	1,654
Inventories		**119,863**	**19,031**
Trade receivables		17,127	16,821
Receivables from group enterprises		1,553,570	1,791,280
Other receivables		14,844	15,197
Deferred tax asset	11	72,004	56,897
Prepayments	12	10,323	7,900
Receivables		**1,667,868**	**1,888,095**
Cash at bank and in hand		**21,824**	**0**
Currents assets		**1,809,555**	**1,907,126**
Assets		**3,613,852**	**4,039,223**

Balance Sheet 31 December

Liabilities and equity

	Note	2017	2016
		TDKK	TDKK
Share capital		10,000	10,000
Reserve for development costs		0	66,754
Retained earnings		1,881,986	1,112,296
Equity	13	**1,891,986**	**1,189,050**
Provisions relating to investments in group enterprises		0	72,946
Other provisions	14	311,491	286,176
Provisions		**311,491**	**359,122**
Payables to group enterprises		0	891,557
Long-term debt	15	**0**	**891,557**
Credit institutions		0	254,844
Prepayments received from customers		193,844	188,322
Trade payables		71,517	67,299
Payables to group enterprises	15	459,617	605,656
Corporation tax		27,639	52,658
Other payables		85,198	73,989
Deferred income	16	572,560	356,726
Short-term debt		**1,410,375**	**1,599,494**
Debt		**1,410,375**	**2,491,051**
Liabilities and equity		**3,613,852**	**4,039,223**

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Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	10,000	66,754	1,085,173	1,161,927
Net effect of correction of material misstatements	0	0	73,903	73,903
Net effect from change of accounting policy	0	0	-46,780	-46,780
Adjusted equity at 1 January	10,000	66,754	1,112,296	1,189,050
Contribution from group	0	0	245,199	245,199
Other equity movements	0	-66,754	66,754	0
Net profit/loss for the year	0	0	457,737	457,737
Equity at 31 December	**10,000**	**0**	**1,881,986**	**1,891,986**

Notes to the Financial Statements

		2017	2016
		TDKK	TDKK

1 Revenue

As the major part of the revenue originates from sale of moulds and services to subsidiaries as well as royalty received from subsidiaries with no major variation in the sales patern or markets, no segment information is given with reference to the Danish Financial Statements Act section 96 paragraph 1.

Geographical segments

	2017	2016
Revenue, Denmark	361,380	43,250
Revenue, exports	1,133,036	1,140,414
	1,494,416	**1,183,664**

2 Staff expenses

	2017	2016
Wages and salaries	259,869	221,701
Pensions	13,443	16,606
Other social security expenses	4,716	6,364
	278,028	**244,671**
Including remuneration to the Board of Directors of:		
Board of Directors	55	55
	55	**55**
Average number of employees	**451**	**399**

No pension was paid as remuneration to the Board of Directors. No remuneration was paid to the Executive Board.

3 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

	2017	2016
Amortisation of intangible assets	0	63,251
Depreciation of property, plant and equipment	68,430	27,405
	68,430	**90,656**

Notes to the Financial Statements

		2017	2016
		TDKK	TDKK
4	**Financial income**		
	Interest received from group enterprises	57,082	246,100
	Other financial income	644,981	264,094
		702,063	**510,194**
5	**Financial expenses**		
	Interest paid to group enterprises	8,804	172,351
	Other financial expenses	234,158	44,653
		242,962	**217,004**
6	**Tax on profit/loss for the year**		
	Current tax for the year	24,883	52,658
	Deferred tax for the year	15,107	19,306
	Adjustment of tax concerning previous years	77,831	9,226
		117,821	**81,190**

7 Intangible assets

	Completed development projects	Software	Goodwill	Development projects in progress
	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	619,051	0	172,199	91,906
Additions for the year	0	3,948	0	0
Disposals for the year	-619,051	0	-172,199	-91,906
Transfers for the year	0	97,431	0	0
Cost at 31 December	0	101,379	0	0

Notes to the Financial Statements

7 Intangible assets (continued)

	Completed development projects	Software	Goodwill	Development projects in progress
	TDKK	TDKK	TDKK	TDKK
Impairment losses and amortisation at 1 January	467,922	0	134,486	0
Amortisation for the year	0	15,778	0	0
Reversal of amortisation of disposals for the year	-467,922	0	-134,486	0
Transfers for the year	0	35,626	0	0
Impairment losses and amortisation at 31 December	0	51,404	0	0
Carrying amount at 31 December	**0**	**49,975**	**0**	**0**

8 Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Property, plant and equipment in progress
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	1,164	134,393	131,623	66,525	99,073
Additions for the year	0	4,248	788	4,055	21,131
Disposals for the year	-21	0	-2,966	-31	-31,281
Transfers for the year	0	47,196	-97,431	847	-48,043
Cost at 31 December	1,143	185,837	32,014	71,396	40,880
Impairment losses and depreciation at 1 January	1,143	117,978	67,542	61,465	0
Impairment losses for the year	0	41,376	0	0	0
Depreciation for the year	0	8,001	1,095	2,229	0
Reversal of impairment and depreciation of sold assets	0	0	-2,966	-31	0
Transfers for the year	0	0	-35,626	0	0
Impairment losses and depreciation at 31 December	1,143	167,355	30,045	63,663	0
Carrying amount at 31 December	**0**	**18,482**	**1,969**	**7,733**	**40,880**

Notes to the Financial Statements

9 Investments in subsidiaries

	2017	2016
	TDKK	TDKK
Cost at 1 January	1,714,919	1,244,724
Additions for the year	481,787	470,195
Disposals for the year	-482,057	0
Cost at 31 December	1,714,649	1,714,919
Value adjustments at 1 January	-48,317	-48,317
Disposals for the year	46,701	0
Revaluations for the year, net	-27,775	0
Value adjustments at 31 December	-29,391	-48,317
Carrying amount at 31 December	**1,685,258**	**1,666,602**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership
LM WP Patent Holding A/S	Denmark	100%
LM Wind Power International Technology I ApS	Denmark	100%
LM Wind Power International Technology II ApS *	Denmark	100%
LM Wind Power Blades (Qinhuangdao) Co., Ltd.	China	100%
LM Wind Power Blades (Tianjin) Co., Ltd.	China	100%
LM Wind Power Blades Technology (Tianjin) Co., Ltd.	China	100%
LM (China) Holding Company Ltd.	China	100%
LM Wind Power Blades (Jiangsu) Co., Ltd.	China	100%
LM Wind Power Services (Deutschland) GmbH	Germany	100%
LM Wind Power Blades (India) Private Ltd.	India	100%
LM Wind Power Technologies (India) Private Ltd. *	India	100%
LM Wind Power R&D (Holland) B.V.	Netherlands	100%
LM Wind Power Blades (France) S.A	France	100%
LM Wind Power do Brasil S.A.	Brazil	100%
LM Wind Power Blades (Poland) Sp. z o.o.	Poland	100%
LM Wind Power Services (Poland) Sp. z o.o.	Poland	100%
LM Wind Power Blades (Canada) Inc.	Canada	100%
4305825 Canada Inc.	Canada	100%
LM Wind Power Blades Turkey Sanayi ve Ticaret Anonim Sirketi	Turkey	100%

Subsidaries marked with a * are indirectly owned by LM Wind Power A/S.

Notes to the Financial Statements

10 Other fixed asset investments

	Other investments 2017
	TDKK
Cost at 1 January	96
Disposals for the year	-96
Cost at 31 December	0
Carrying amount at 31 December	**0**

11 Deferred tax asset

	2017	2016
	TDKK	TDKK
Deferred tax asset at 1 January	56,897	69,053
Amounts recognised in the income statement for the year	15,107	-19,306
Correction to prior year	0	7,150
Deferred tax asset at 31 December	**72,004**	**56,897**

The deferred tax asset relates to timing variances mainly related to fixed assets and provisions. The company has positive taxable income and expect to realize the deferred tax asset withing one to three years.

12 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well.

13 Equity

The share capital consists of 10,000,000 shares of a nominal value of TDKK 1. No shares carry any special rights.

There have been no changes in the share capital during the last 5 years.

Notes to the Financial Statements

	2017	2016
	TDKK	TDKK

14 Other provisions

TDKK 201,835 of other provisions relate to warranty provision and TDKK 109,656 relate to ongoing tax inquiries.
As for the warrenty provision, the Company provides warranties of 1 to 5 years on some of its products and is therefore obliged to repair or replace goods which are not satisfactory. Based on previous experience in respect of the level of repairs and returns, other provisions have been recognised for expected warranty claims.
As for the ongoing tax inquiry provision, Management has made an assessment of the outcome and provided for this.

	2017 TDKK	2016 TDKK
Balance at beginning of year	286,176	115,359
Provision in year	101,914	195,484
Employed in year	-76,599	-24,667
	311,491	**286,176**
The provisions are expected to mature as follows:		
Within 1 year	261,032	76,599
Between 1 and 5 years	50,459	209,577
	311,491	**286,176**

15 Long-term debt

Payables to group enterprises

	2017 TDKK	2016 TDKK
After 5 years	0	891,557
Long-term part	0	891,557
Other short-term debt to group enterprises	459,617	605,656
	459,617	**1,497,213**

16 Deferred income

Deferred income consists of payments received in respect of income in subsequent years.

17 Distribution of profit

	2017 TDKK	2016 TDKK
Retained earnings	457,737	663,873
	457,737	**663,873**

Notes to the Financial Statements

	2017	2016
	TDKK	TDKK

18 Contingent liabilities and other financial obligation

Charges and security

The following pledges and securities where given for the bank debt of the company and its parent company:

	2017	2016
All existing and future shares cerifiates in LM Wind Power Blades Inc.	0	305,000
All existing and future shares cerifiates in LM WP Patent Holding A/S	0	441,000

Rental and lease obligations

	2017	2016
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	31,090	25,138
Between 1 and 5 years	37,470	41,379
After 5 years	5,055	10,060
	73,615	**76,577**

Other contingent liabilities

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. AcceptFinans ApS is the management company of the joint taxation. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

As at 31 December 2017, the Company had issued guarantees against customers for a total of DKK 71 million. In addition, the Company issued guarantees for LM Brazil for a total of DKK 61 million jointly with LM Group Holding A/S and other LM entities.

The company has ongoing tax inquiries that may lead to future cash outflows. Management has assessed the outcome and provided for this as part of other provisions.

The Company has transferred its intellectual property rights to one new and one existing subsidiary. The existing subsidiary then transferred the rights to two new subsidiaries and sold one of the subsidiaries to another subsidiary of General Eletric Company. In conjunction with the transfer, the entities entered into a mutual agreement where the LM Wind Power A/S is committed to provide development services for the new entities, and the new entities are committed to hold the intellectual property rights available for the LM Wind Power A/S. This agreement cannot be terminated before 30 April 2020.

Notes to the Financial Statements

19 Related parties

	Basis
Controlling interest	
LM Wind Power Blades (Spain) S.A.	Holds 100% of the capital

Transactions

The Company has chosen only to disclose transactions which have not been made on an arm's lenght basis in accordance with section 98(c)(7) of the Danish-Finance Statements Act. All transactions have been made on an arm's lenght basis.

Consolidated Financial Statements

The Company is included in the Group Anual Report of the Parent Company

Name	Place of registered office
General Electric Company	Boston, MA 02210, USA

The Group Annual Report of General Electric Company may be obtained at the following address:

General Electric Company, 41 Farnsworth Street, Boston, Massachusetts, 02210, USA.
General Electric Company prepares consolidated financial statements for the smallest and biggest Group, in which LM Wind Power A/S is a subsidiary.
The annual accounts of the parent company are available at www.ge.com.

20 Fee to auditors appointed at the general meeting

With reference to section 96 part 3 of the Danish Financial Statements Act, the Company has not presented the fee to auditors appointed at the general meeting.

Notes to the Financial Statements

21 Accounting Policies

The Annual Report of LM Wind Power A/S for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The Financial Statements for 2017 are presented in TDKK.

Changes in accounting policies

The company has changed its measurement of investments in subsidiaries from equity method to cost in conjunction with the adoption of General Electric Company accounting practice for investment in subsidiaries subsequent to their acquire of the LM Group.
The current year effect of the change is unknown. Last year's effect was:

Income from investments in subsidiaries TDKK 165,905 increase.
Income from investments in subsidiaries, profit before tax and net profit all increased by TDKK 165,905. In addition, investment in subsidiaries, total assets and equity (retained earnings) decreased by TDKK 46,780.

The Company's cash flow is not subject to any changes.
The comparative financial statements have been updated accordingly.
Apart from the above mentioned, no other changes in the accounting principles were applied.

Correction of material misstatements

A material misstatement regarding prepayents received was noted and corrected impacting the 2016 figures as follows:

Revenue TDKK 94,747 increase.
Profit before tax TDKK 94,747 increase.
Tax on profit for the year TDKK 20,844 increase.
Net profit TDKK 73,903 increase.
Equity DKK 73,903 increase.
Deferred tax asset TDKK 20,844 decrease.
Deferred income TDKK 94,747 decrease.
The total assets TDKK 20,844 decrease.

A material misstatement regarding the recognition of elimination of intercompany profit and intercompany revenue from investments in subsidiaries was noted and corrected impacting the 2016 figures as follows:

Revenue TDKK 163,778 increase.
Income from investments in subsidiaries TDKK 163,778 decrease.

Notes to the Financial Statements

21 Accounting Policies (continued)

Profit before tax, net profit, total assets and equity are not affected.

A material misstatement regarding write down on receivables from group enterprises was noted and corrected impacting the 2016 figures as follows:

Income from investments in subsidiaries TDKK 201,654 decrease.
Financial income TDKK 201,654 increase.
Profit before tax, net profit, total assets and equity are not affected.

For 2017, software is classified under intangible assets against formerly as part of Other fixtures and fittings, tools and equipment.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of General Eletric Company, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of , the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Notes to the Financial Statements

21 Accounting Policies (continued)

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Derivative financial instruments

Interest rate swap, forward exchange contracts and other derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value. Negative fair values from derivative financial instruments are recognised under liabilities and positive fair values are recognised under assets.

Changes in fair value of interest swaps and other derived financial instruments included to secure future interest payments and acquisition and sales transactions are recognised directly in the equity. Earnings and costs concerning such hedging transactions are transferred from equity upon realisation of the item hedged and recognised in the same accounts entry as the item.

For derived financial instruments which do not fulfil the conditions for hedged instruments, the changes in fair value are recognised periodically into the income statement under financial items.

Income Statement

Revenue

Revenue from the sale of goods and services is recognised when the risks and rewards relating to the goods and services sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts granted are deducted from revenue.

Notes to the Financial Statements

21 Accounting Policies (continued)

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc.

Staff expenses

Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees. The item is net of refunds made by public authorities.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Income from investments in subsidiaries

Dividends from subsidiaries are recognised as income in the income statement when adopted at the General Meeting of the subsidiary.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions and surcharges and allowances under the advance-payment-of -tax scheme, etc.

Notes to the Financial Statements

21 Accounting Policies (continued)

Tax on profit/loss for the year

The company is subject to the Danish rules on compulsory joint taxation of the Group's Danish subsidiaries. Subsidiaries participate in the joint taxation arrangement from the time when they are included in the consolidated financial statements and until the time when they withdraw from the consolidation.

The company is subject to the Danish rules on compulsory joint taxation.

On payment of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use tax losses to reduce their own taxable profits.

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, including changes arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to entries directly in equity.

Balance Sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 20 years due to the Company's long time customer relationship and product lifetime etc.

Development costs are measured at costs which include wages and other costs directly or indirectly attributed to development activities. Clearly defined and identifiable development projects in which the degree of technical utilization rate, sufficient resources and a potential market or potential use can be demonstrated, and when there is an intention to produce, sell or use the project, are recognised as intangible assets, providing the cost price can be reliably established, and if there is sufficient certainty that present value of future earnings can cover production, sales and administration costs, plus development costs.

Recognised development costs are amortized on a straight line basis after completion of the development work over the expected economic life from the time the asset is ready for use. The amortisation period is 3-6 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time

Notes to the Financial Statements

21 Accounting Policies (continued)

when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Buildings	25	years
Plant and machinery	2 - 10	years
Leasehold improvements	5	years
Other fixtures and fittings, tools and equipment	2 - 10	years

Depreciation period and residual value are reassessed annually.

Fixed assets under construction are recognised and measured at cost at the balance sheet date. Upon entry into service, the cost is transferred to the relevant group of property, plant end equipment.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

The Danish Financial Statements Act section 97a, par. 4 has been applied for the list of investments in subsidiaries.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables covers all direct costs related to purchase, including transport costs.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and di-

Notes to the Financial Statements

21 Accounting Policies (continued)

rect labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums and subscriptions.

Provisions

Other provisions include warranty provisions and provisions for ongoing tax inquiries.

Warranty commitments covers obligations to repair blades delivered during their guarantee period. A general provision is made based on actual warranty costs and expected future costs. In addition, individual provisions are made to cover retrofit costs. No discounting of provisions is made for future warranty costs.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Notes to the Financial Statements

21 Accounting Policies (continued)

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment in form of interests and discounts under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials x 100}}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$